News release

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Beyond the BRICs: the pockets of opportunity for business

When businesses seek to identify the emerging economies into which to expand their activities, the natural conclusion is to focus on the large emerging economies of the world. Indeed, the recently-launched PwC World in 2050 report shows that in the long term the seven largest emerging economies - the E7 - could grow twice as fast as the G7 on average.

But in their latest monthly Global Economy Watch report, PwC's economists turn the spotlight onto other mid-sized economies.

"We think that there are other smaller but equally appealing economies - what we call the 'pockets of opportunity' - businesses should consider when thinking of expanding their international footprint," says Barret Kupelian, Senior Economist, PwC

Vietnam, for example, has negotiated a trade deal with the European Union and so could develop into a manufacturing hub in the future. There is tangible evidence that Vietnam is using Foreign Direct Investment (FDI) to move its economy away from a high-volume, low-cost base to a more high value-added focus, with mobile phones now being its largest export as opposed to commodities.

Poland, with its access to the Single Market, has one of the most liberal FDI regimes of richer economies. It also has relatively low labour costs - for example the hourly cost of labour in Poland was €8.60 in 2015 which was significantly below the EU average of €25 per hour. These two factors, along with its central location within the broader European continent, have helped Poland attract FDI, with the total stock now around $200 billion or around 50% of its GDP.

And **Colombia** has embarked on a radical $70 billion infrastructure programme, a boon to businesses that specialise in design and construction. Colombia is a mid-sized economy that is well poised to grow in the short to medium term. The stabilisation or, in some cases, increases in commodity prices over the past year and the depreciation of the Colombian peso mean that its external adjustment is largely complete.

In their latest report, the economists also discuss the potential impact of a further rise in US interest rates on emerging economies. Even though some markets may be overly exposed to dollar-denominated debt, they think most are in a better position to deal with tighter US monetary policy for three reasons.

First, the Fed has signalled a slow and measured rate rise, giving businesses in emerging markets more time to plan their foreign-debt management strategy. Second, most emerging markets have flexible exchange rate regimes in place, which allows them to moderate the impact of negative capital flows through the nominal adjustment of their exchange rate. And third, with commodity prices back on the rise and likely to stabalise this year, emerging economies which are reliant on commodity exports (e.g. Nigeria, Brazil) should see an improvement in their external balances.

Finally, the economists take a look at the Eurozone economies. In the last three months of 2016, Eurozone GDP grew by 0.4% quarter-on-quarter, growing for the 15th quarter in a row. Looking at the picture for the whole of last year, the latest set of national accounts show that the Eurozone grew faster than the US in 2016.

However, a closer look at the numbers reveals a more telling story. The US economy is around 12% bigger now compared to the beginning of the financial crisis, defined as the last quarter of 2007. Set against this, the performance of the Eurozone is more disappointing, as it is just 4.6% bigger. This suggests that the pace of the recovery over this period in the Eurozone has been three times slower compared to the US.

And even though GDP in the Eurozone periphery is growing faster than the core, the picture in GDP level terms is different. For example, core economies like Germany, France and the Netherlands are now bigger compared to when the global financial crisis started. Italy, however, is the only core economy in the sample which remains smaller compared to its pre-crisis size.

At the opposite end of the spectrum, the picture with the bailout economies is mixed. At one end Greece's economy is around 25% smaller. Portugal and Cyprus continue to be smaller compared to their pre-crisis size, but the latter has managed to recover ground faster post-bailout than the former. Finally, Spain is the star student in the periphery as its economy is just 0.7% smaller compared to its pre-crisis level. Bar an accident we expect Spain to be the first peripheral economy to grow bigger than its pre-crisis size.

For more details, please see this month's Global Economy Watch at www.pwc.com/GEW.

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